

of 8.4% in 1973. The 1974 increase is the largest on record, outranking that of 1951, when pressures associated with the Korean War sent the index up 11.5%, and that of 1948 when prices rose by 12.2% because of postwar reconversion.

Most income and expenditure components showed remarkable increases: labour income 16.9%, corporation profits 27.2%, interest and miscellaneous investment income 33.1%, accrued net income of farm operators from farm production 19.0%, consumer expenditures on goods and services 15.2%, government current expenditure on goods and services 20.6%, business expenditures on plant and equipment 23.4%, exports of goods and services 25.4% and imports on goods and services 31.2%. However, such increases largely reflected the current rate of inflation. A trade deficit of \$2,187 million was the largest on record.

In real terms, the weakness in the external sector of the economy offset much of the strength in the domestic sector. Final domestic demand increased by 5.2% in 1974, a deceleration from the 1973 growth rate of 7.5%, but in line with the average rate of growth over the past 25 years.

### **21.1.2 Consumer outlays**

Current dollar consumer expenditure increased more than 15% in 1974; prices grew by 10.5%. The real increase of 4.2% in 1974 followed increases of 7.5% in 1973, 6.6% in 1972 and 5.7% in 1971.

Consumer spending on durables increased by 5.0% in real terms, after a 15.6% rate of increase in 1973. This sharp deceleration was because of a decline in sales of new passenger cars, and weakness in residential construction; sales of furniture and appliances slowed from 1973. Spending on semi-durables increased by 7.1% in real terms, and the over-all deceleration from 11.5% in 1973 was widely distributed among the components. Sales of non-durables increased by 4.9% in real terms compared to 5.7% in 1973; expenditures on food (the largest component) increased at the same rate as in 1973, while alcoholic beverages, gasoline and oil showed a deceleration. Real consumer spending on services increased 2.2% in 1974.

All major components of consumer expenditure experienced sharper price rises in 1974 than in 1973, but price increases were particularly strong in durable and semi-durable goods.

### **21.1.3 Investment**

Real gross fixed capital formation was strong in 1974, despite a decline in the rate of investment in residential construction. Virtually all of the increase was due to business plant and equipment expansion, which continued the vigour of 1973 following six years of relatively weak investment. A steep 15.7% price increase was almost double the 1973 rate of 8.5%. The year-to-year changes in the components of business capital formation, in real terms, were as follows: residential construction, down 2.6%, non-residential construction, up 7.6%, machinery and equipment, up 8.1%. Although residential construction was only about 5% of total real gross national expenditure in 1974, its modest increase, after 8.8% growth in 1973, figured strongly in the slower growth in final domestic demand.

There was a sharp rise in non-farm business inventory investment, from \$1,081 million in 1973 to \$2,669 million in 1974. Both manufacturing and wholesale trade displayed strong increases.

### **21.1.4 The external sector**

The trade deficit stood at \$2,187 million in 1974, up from \$319 million in 1973. The deterioration was mainly attributable to the balance on goods, which fell from a surplus of \$2,720 million to \$1,519 million. The deficit on services increased from \$3,039 million to \$3,706 million.

Export prices rose by nearly 30% in 1974, due to very sharp increases in the prices of wheat, petroleum and natural gas, wood pulp and newsprint, all metals and final manufactured goods. The increase of about 21% in import prices is accounted for by strong price rises in food, petroleum, chemicals, metals and by relatively strong increases in final manufactured products.

In real terms, exports declined by 3.8%. This decline was due to decreased exports of food, petroleum, lumber and auto parts, which were partially offset by increases in exports of wood pulp, newsprint, iron and steel, machinery and equipment, and motor vehicles.

Constant dollar imports were up 8.6% in 1974 due to increases in all major categories of manufactured goods. There was a decline in petroleum imports.